

SUMMARY ANALYSIS OF AMENDED BILL

Author: Strickland Analyst: Deborah Barrett Bill Number: AB 2698
 Related Bills: See Prior Analysis Telephone: 845-4301 Amended Date: May 2, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Hearing Aids Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced February 24, 2006.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED
 _____ STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would provide an income tax credit for individual taxpayers for the purchase of a hearing aid.

SUMMARY OF AMENDMENTS

The May 2, 2006, amendments placed a limit on the hearing aid credit not to exceed \$500.00 per hearing aid. As a result, the revenue estimate provided in the department's previous analysis of the bill as introduced February 24, 2006, has been revised. Additionally, the amendments did not resolve one of the Implementation Concerns identified in the department's analysis of the bill as introduced February 24, 2006, and is restated for convenience. The remainder of the department's analysis of the bill as introduced February 24, 2006, still applies.

POSITION

Pending

Board Position:

_____ S _____ NA _____ NP
 _____ SA _____ O _____ NAR
 _____ N _____ OUA _____ X PENDING

Legislative Director

Date

Brian Putler

5/5/06

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

The definition of hearing aid provided in this bill is very broad, and feasibly, items such as headsets or earplugs could be included. Adding language to specify "medically prescribed hearing devices," or language that would identify devices that would be deductible as a medical expense under IRC sec. 213 may more accurately reflect the author's intent.

FISCAL IMPACT

This bill would require a calculation for the credit that would require a new worksheet to be developed. As a result, this bill would impact the department's printing, processing, and storage costs for tax returns. The additional costs will be identified and, if needed, an appropriation requested as the bill moves through the legislative process.

ECONOMIC IMPACT

Based on data and assumptions discussed below, the Personal Income Tax (PIT) and Corporation Tax revenue loss from this bill would be as follows:

Estimated Revenue Impact of AB 2698 Effective On Or After January 1, 2006 Enactment Assumed After June 30, 2006 (\$ Millions)			
	2006-07	2007-08	2008-09
Hearing Aid Credit	-\$120	-\$115	-\$115

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion:

The number of taxpayers who would take advantage of this credit was estimated to be approximately 540,000 in California. Sources estimate about 30 million Americans have some hearing loss. It was assumed that of these 30 million with some hearing loss, about 50 percent need a hearing aid. Sources estimate that only 1/3 of those that need hearing aids actually get them. Because California has 12 percent of the U.S. population, it is assumed that 12 percent of these individuals with hearing aids reside in California. Most insurance policies do not cover the costs of a hearing aid. Accordingly it was assumed 90 percent of those individuals getting hearing aids would not have any coverage for this expense. The estimate assumes that taxpayers claiming the credit would purchase new hearing aids once every four years. Therefore, it is estimated that approximately 135,000 Californians would qualify for this credit each year.

(30 million Americans x 50% x 1/3 x 12% California population x 90% x 1/4). The estimate also assumes that starting in 2007 the number of people buying a hearing aid would increase 10 percent annually due to the proposed credit.

Research indicates that the average cost of a pair of hearing aids is approximately \$2,200; however, this bill limits the tax credit to \$500 each, or \$1,000 per pair. For 2006, the value of qualified purchases is estimated to be approximately \$135 million (135,000 Californians times \$1,000). The estimate assumes that taxpayers will have sufficient tax liabilities to use only 80 percent of this credit. The total cost of this bill for calendar year 2006 is thus estimated to be \$108 million (\$135 million x 80%). Estimates provided in the table above have been converted to fiscal years.

POLICY CONCERN

The bill's provisions contain no repeal date. Generally, tax credits are enacted with a repeal date to provide the legislature the opportunity to review the effectiveness and utilization of the credit.

LEGISLATIVE STAFF CONTACT

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